RJReynolds Tobacco Company

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N. Y. Metro Region
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June 8, 1998

To: Dave Wilmesher

Subject: **Doral Discounting**

Dear Dave:

In response to Jim Maguire's letter, below are some observations regarding our Doral discounting strategy in the New York Metro Region.

Issue #1 Level of promoted volume

The index in attachment #1 shows that we have at no time during the last 3 quarters exceeded the PV level that GPC has attained at retail. We have improved our PV vs. GPC in all outlet types excluding SM since 3rd quarter 1997. The heavy PMX situation that we have in SM prevents us from matching up against any of our key competitors in approx. 50% of our SM CIV. The table below shows how we match up against our key competitors utilizing the Marlin measure % Vol w/ Buy Dwn/Sticker in all outlets.

Brand	% Volume W/ Buydown/Sticker		
	3Q 97	4Q 97	1Q 98
Doral	18.01	17.50	23.77
GPC	32.05	39.09	35.03
Basic	5.44	4.97	7.86
Marlboro	7.26	8.97	11.44

GPC remains our main trigger overall as evident by the PV levels they maintain in our marketplace. The fact that GPC is BAT's #1 priority at retail will naturally keep them at a high PV level. Even though Kool offers them greater opportunity in this market, the 100% sniped product that has been flowing through to retail has enabled them to keep primary focus on GPC discounting at retail. In most cases Doral is our #3 or #4 priority brand at retail, so when dealing with limited retailer resources we strive to achieve our Full Price objectives first. We match up much better on breadth of Doral promotion vs. our key competitors. In other words, we get Doral promotion into the stores where we need to but not in the quantities of GPC. There is no science as to the way BAT promotes GPC at retail. If a store sells 60 cartons of GPC per month and the retailer is willing to buy 90, they will promote 90. This gives them depth but is this depth efficient? No it is not.

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Issue #2 More aggressive values

There is currently no effective way to obtain a true apples to apples comparison of retail discounting due to the way we read our National promotions. If you look at face values in Marlin, it includes BSGSF and our $1.00 off 2-pack promotions. In the future we will be able to exclude BSGSF activity but our more aggressive 2-pack discounting will continue to drive our face values north. When utilizing BAN we also pick up our $1.00 off 2-pack promotions. This is a change from 1997. Our BAN discounting did not pick up these National promotions during 1997 so naturally we will see a slight face value increase during 1998 when comparing back against 1997 levels. The best read that I could obtain was Doral BAN (actual spending) vs. competitive Marlin levels. This excludes BSGSF but still includes $1.00 off 2-packs. The table below compares Doral's BAN face values vs. competitive values read from Marlin (Price Avg $ Disct/Pr Vol/Ctn Equiv).

Brand		Face Value	
	3Q 97	4Q 97	1Q 98
Doral	2.30	2.44	2.83
GPC	2.26	2.44	2.33
Basic	2.05	2.35	2.00
Marlboro	2.85	2.65	2.26

Overall we don't appear to have any discounting issues in our Region. The face value has increased on Doral vs. our key competitors but for the reasons mentioned above it is not a true comparison. Our Price Gap reporting shows us to be at 80% or better on strategy, dependent on outlet type. All managers are currently reinforcing the strategy with all of their people to ensure that we are effectively and efficiently defending Doral at retail.

If you should have any questions, please give me a call.

Sincerely,

Mike

cc: M. A. Young

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